



Control Number: 51871



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PUCT PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY
PRICING MECHANISM

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PUBLIC UTILITY COMMISSION
OF TEXAS

RECEIVED
MAY 13 2021
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**NRG ENERGY, INC.'S COMMENTS ON THE
PROPOSAL FOR PUBLICATION OF AMENDMENTS TO 16 TEX. ADMIN. CODE
§ 25.505**

NRG Energy, Inc. (NRG) appreciates the opportunity to provide these comments to the Public Utility Commission of Texas ("Commission") on the proposal for publication of amendments to 16 Tex. Admin. Code (TAC) § 25.505, *Resource Adequacy in the Electric Reliability Council of Texas Power Region*.¹

I. INTRODUCTION AND SUPPORT FOR PROPOSED AMENDMENTS

NRG supports the proposed amendments to 16 TAC § 25.505 outlined in the proposal for publication and recommends that they be adopted with a minor adjustment to add a reasonable margin to the cost recovery mechanism provided in new subsection (g)(7) to incentivize continued performance once the Low System-Wide Offer Cap (LCAP) is triggered, as described in NRG's previous comments filed in this proceeding and as set forth below. NRG also appreciates the certainty provided by the Commission to maintain the LCAP at \$2,000/MWh for the remainder of 2021 rather than temporarily adopting some higher value for the upcoming summer period. At this point, market participants have primarily completed hedging activities for summer so any changes would disrupt prior transactions.

As explained in NRG's initial and reply comments in this project,² the scarcity pricing mechanism, including the calculation of the peaker net margin (PNM) which lowers the System-Wide Offer Cap (SWCAP) to the LCAP for the remainder of a calendar year after a threshold has been met, provides an important cost containment mechanism for consumers. The PNM concept

¹ Proposal for Publication of Amendments to § 25.505 as Approved at the May 6, 2021 Open Meeting (May 6, 2021), published in the *Texas Register* on May 21, 2021.

² NRG Energy, Inc. Response to Request for Comments on the Low System-Wide Offer Cap (Mar. 19, 2021) (NRG's Initial Comments); NRG Energy, Inc.'s Reply Comments Concerning the Low System-Wide Offer Cap (Mar. 26, 2021) (NRG's Reply Comments); (collectively "NRG's Comments").

has been in Commission rule since 2006³ and acts as a circuit breaker to protect consumers from a prolonged period of extremely high prices in the ERCOT market. The SWCAP is set at the \$9,000/MWh high system-wide offer cap (HCAP) until the PNM exceeds a threshold of three times the cost of entry of a new generation plant.⁴ When that threshold is met, the SWCAP is lowered from \$9,000/MWh to the LCAP.

The pricing circuit breaker concept is an important policy in this energy-only market, but it needs improvement to ensure that it acts as intended. As currently designed, the LCAP is set at the greater of \$2,000/MWh or \$50 times the natural gas price index (50x component).⁵ Therefore, situations can arise where the 50x component could exceed the HCAP, contrary to the purpose of the circuit breaker mechanism. The proposed amendments address the issues with the current rule, and better accommodate a situation where very high natural gas prices increase the cost of generation to be above \$2,000/MWh, by maintaining the LCAP at \$2,000/MWh and allowing generators to recover certain costs through make-whole settlement. However, the cost recovery mechanism should include a reasonable margin to ensure generators do not risk operating at a loss during a period of high fuel prices and have sufficient performance incentives.

II. PROPOSED MODIFICATION – INCLUSION OF A REASONABLE MARGIN IN THE COST RECOVERY MECHANISM PROVIDED IN NEW SUBSECTION (g)(7)

NRG recommends that the cost recovery mechanism in proposed subsection (g)(7) include a reasonable margin to ensure costs are fully recovered and to provide a performance incentive, consistent with NRG's reply comments to TIEC's comments on the questions posed in this rulemaking.⁶ Implementing a cost recovery process that is too restrictive could create a disincentive for generators to continue to operate after the LCAP is triggered.

³ *Rulemaking on Wholesale Electric Market Power and Resource Adequacy in the ERCOT Power Region*, Project 31972, Order Adopting Amendment to §25.502, New §25.504 and New §25.505 as Approved at the August 10, 2006, Open Meeting (Aug. 23, 2006).

⁴ 16 TAC § 25.505(g)(6)(C).

⁵ 16 TAC § 25.505(g)(6)(A).

⁶ NRG's Reply Comments at 4; Texas Industrial Energy Consumers' Initial Comments on the Low System-Wide Offer Cap at 10 (Mar. 19, 2021) (TIEC's Comments).

As envisioned in the proposed rule change, ERCOT would leverage existing settlement processes to the extent possible to implement the cost reimbursement mechanism. NRG agrees that it is appropriate to use existing mechanisms to lower implementation costs and resource utilization, however experience has shown that ERCOT and generators do not always agree on what constitutes appropriate costs eligible for recovery.⁷ If a disagreement were to occur during the cost reimbursement process, there could be an ongoing risk that generators would have to operate at a loss when their costs were above the \$2,000/MWh LCAP. Clear rules developed at ERCOT describing what costs are eligible for recovery would help prevent this situation, but ambiguity could certainly remain in the cost evaluation process. Further, during extreme weather events, fuel prices can be highly volatile and difficult to document. Adding a reasonable margin to the cost recovery mechanism would help avoid financial losses for generators resulting from differences in realized costs compared to those approved by ERCOT for recovery and ensure there are proper financial incentives to continue operation after the LCAP is triggered. A reasonable margin could be implemented as a simple fixed \$/MWh adder or percentage of variable cost submitted, not to exceed 10% of total cost reimbursed.

NRG encourages the Commission to adopt this concept as part of the amendments to 16 TAC § 25.505, and believes it strikes the appropriate balance to ensure that the circuit breaker mechanism operates as intended without creating the risk of financial loss for generators to operate in times of scarcity. Accordingly, NRG recommends the following changes to proposed subsection (g)(7). NRG's recommended changes are double underlined.

- (7) **Reimbursement for Operating Losses During an Event when the LCAP is in Effect.** During an event when the system-wide offer cap is set to the LCAP, ERCOT must reimburse resource entities for any actual marginal costs in excess of real-time revenues, plus a reasonable margin. ERCOT must utilize existing settlement processes to the extent possible to verify the resource entity's cost for reimbursement. Reimbursement shall include a margin on the generator's actual cost to ensure performance during an LCAP event.

III. CONCLUSION

NRG appreciates the Commission's thoughtful consideration of amendments to this rule. NRG respectfully recommends that the Commission adopt the proposed revisions to 16 TAC § 25.505,

⁷ *Complaint and Request for Emergency Relief by Luminant Energy Company LLC against the Electric Reliability Council of Texas, Inc.*, Docket No. 51883 (pending).

along with the modifications set forth above to ensure that the scarcity pricing mechanism can remain in place through a wide range of market conditions, and that generation meets the needs of the market.

Respectfully submitted,

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